

Competing In the 'Fast Lane'

BY JOHN T. OPPENHEIMER*



The 'secrets' of how a small pharmaceutical company successfully competes among the giants

I consider myself to be a licensing enthusiast. I've been involved in the licensing process throughout my career in Marketing, Sales and General Management. Not only do I have a Marketing class on licensing, I also have the perspective that comes with more than 20 years' experience with large, multinational companies, several years as one of the founders of a start-up operation and, for the last three years, as President of a mid-sized company: Reed & Carnick Pharmaceuticals.

And from all of these points of view, I can't think of a more important function for the continued success of companies like mine than licensing.

We all read the papers and we all are too well aware that the economy is still dragging itself out of the doldrums. We also all know people who have been the victims of the weakened world economy and the slow recovery. Unlike past downturns, this dip has affected both labor and management — people just like you and me. And, as I read in the *Wall Street Journal* a few weeks back, many of these workers may never be able to find comparable jobs again.

That's where I believe the licensing function can have one of its biggest impacts.

By helping your companies find and acquire the rights to new brands, you will be helping to ensure the jobs of hundreds of your co-workers. Who knows, maybe even yourself!

Times are tough, especially in my industry, healthcare. The cost and time of finding breakthrough products has become prohibitive for many organizations. President Clinton told us that we must all "con-

tribute" to the re-orientation of the healthcare system. My husband says the same thing. Our profits will be squeezed even harder. The ongoing value of other brands has been curtailed. We must invent or we will find ourselves in the natural selection game.

We also know of the astounding failure rate of new products. Licensing can help here, too. By skipping costly, negotiating hurdles, working more quickly and efficiently, licensing professionals can give these companies a better shot at success with new product launches and increased sales.

◀ New Products ▶

And these new products and technologies are not there. Not just in the venture companies and start-ups. Not just in the portfolios of larger companies with redundant development projects. They are also just sitting on shelves of companies whose priorities have shifted or whose resources have dwindled to a point where they can no longer support specific market niches. They also abound in big organizations where a particular product lies outside the central corporate charter and, thus, languishes for lack of funds and attention.

The candidates are there. The need is there. And the people in this room are the ones who will match them up and make things happen. There's an old saying that nothing happens until somebody sells something. Well, for many of us, nobody has anything to sell until somebody assigns a license for a new product.

That's why I want to talk today about a particular aspect of licensing that I have called Licensing in the Opposite Lane. Licensing in the Opposite Lane is my description of

how smaller and midsize-sized companies can manage to compete with major multinationals for new products.

Let me to share some of our strategies with you from the perspective of an \$80-million pharmaceutical company that has been reasonably successful in this game. (By the way, \$80 million is considered pretty small in my industry.) We hope that these strategies can serve as examples of what the Devils can do to compete with the Colossus in any industry.

Let me start by telling you a bit about me and my company so you will understand how these principles were derived.

Reed & Carnick is a part of The Block Drug Company, Inc. Block is Market 500 in the Fortune 500 listing. Here's that for just making the cut. It's a family-controlled business that was founded in 1967 as a retail pharmacy. The company sells OTC drugs, antibioid products, dental products and prescription pharmaceuticals through specialized divisions. Approximately half of our business comes from the U.S. and the rest from our international affiliates.

Block is fiscally responsible, conservative and highly risk averse. Although we rank only 500th based on turnover, Block is ranked by Fortune as 444 in profits and 446 in R&D growth over the last 10 years.

But like many already-held companies, there's no big checkbook. The corporate philosophy is based on hard work and steady growth. My client believes in the concept of "get rich quick" — for us or for the

* President, Reed & Carnick, Jersey City, New Jersey; paper presented at LPS 1994 & Canada Annual Meeting, October, 1993.

organizations we deal with. We look for long-term partnerships that meet both of our needs over significant time periods. Not the big kill.

▲ Low Profile ▲

Like many other companies our size, we're not a major player in the broad pharmaceutical markets and we have a very low profile. There's no news article to tell Mr. McInnes to see us as a candidate. We're not flashy. Let's face it, we're like the third-rate jazz studio that would describe as having a great personality.

In the standard lines of striking deals where everyone wins, it can seem critical at Reed & Carnick. Our approach is to really focus partnerships with our licensors.

As a well-known player in the licensing game, Reed & Carnick has to jump all the same hurdles of evaluation, negotiation, contracting and performance that our much larger competitors worry about. But we also have an edge and it's not higher hurdles to leap over to get into the race. That hurdle is coincidence: licensors that they should consider a company our size as a licensee in the first place. I'm looking forward to Parkland '83 and the results of the survey by the Small Business Committee. It will be interesting to hear what large companies have to say about small companies as licensors.

Small companies are nimble. They can act quickly and decisively. They can offer licensors relationships that have high interest priority and that are well monitored by top management. Small companies, like Reed & Carnick, often have strength in market niches that our larger competitors can't afford to cultivate. We can be successful, and quite happy, with products that never even reach the threshold of opportunity that large companies insist on.

But succeeding as a small player in the larger arena is not easy and it doesn't happen by chance.

I hope you'll forgive a sports analogy. They sometimes get going but I believe this one is quite apt. When I was in college, more than a few years ago, one football team seemed to be at the top of the stand-

ings every year—Ohio State. This was a team that never flinched anyone. They ground out the yardage through 100 combinations of solid training, good planning and flawless execution. Woody Hayes wouldn't let them do it any other way. Ohio State never flinches the long yards. They had no predictable play, but they almost never lost a game.

It used to be said of Ohio State football that every play was "four yards and a cloud of dust." Four yards every time means you always control the football. Four yards every time means that sooner or later you will score. It also means that you've got to be darned good at the fundamentals.

Well, I repeated that approach there, and I will do. So I'd like to share our licensing philosophy in the format that pays tribute to Ohio State's style of football.

FOUR YARDS

First get ready
The step at a time
Understand your market
Research. Do anything you have

No pay out
Agreements pay
Rimable promise
Do what you do best
5

It came back to the "5's" little later.

"First get ready."

Getting ready means getting your house in order so that you can compete. It involves a careful and honest inventory of your strengths and your weaknesses.

When I joined Reed & Carnick about three years ago, I found a company that was grinding out profits year after year with few new products and no strategy or focus. The portfolio had developed in too many areas. The resources were spread too thin. You might wonder why I took the job. Quite simple, it was for the opportunity to make a real difference.

We analyzed the situation and realized that we had great strength in the field of gastroenterology and a terrific legacy — but little current activity — in the field of derma-

tology.

These specialties have something in common. They are both rather small — only about 1000 doctors in each specialty compared to the 100,000+ in general medicine.

This small size meant that, if we were to concentrate, we could use our existing resources to much better advantage. We re-evaluated our portfolio. We de-emphasized some brands and revitalized others.

In a relatively short time, instead of being a very small player in a very large market, we became a significant force in two highly specialized fields.

This put us in the position of offering potential licensors the dual benefits of being a small, flexible and responsive organization as well as being a major force in our areas of concentration. We know our two audiences very well. Our sales force has excellent rapport with the doctors and we are respected for the products we bring them.

"One step at a time!"

We have to be able to participate in the licensing game to create our future. So we set about making the company ready for a major effort here.

We strengthened our Licensing Group, and we supported it with extensive market research and analysis capability through our Marketing Unit.

We backed up the corporate R&D department with emphasis on the "D" and on the Regulatory staff needed to get products approved by the FDA. For those of you not in the pharmaceutical business, dealing with regulatory people is kind of like dating — they're willing at first, but pretty soon they're saying, "Well, I don't know ... I don't think it's right." Then, finally, they say, "I wouldn't touch that with a 10-foot pole!"

Another way we were able to strengthen our R&D team came from a previous licensing arrangement. We had licensed an interesting new product for our dermatology sales called Acticin from a company called Chemos. Chemos is a scientific little company with some significant expertise in dermatological products.

Our existing relationship based on the license was already strong, so the license was already strong, so we went further. We formed a joint venture to bring many drug products to market. Charles supplied the "R" and the product development expertise. We were able to discuss our internal R&D resources freely in the governmental parameters of our business.

■ Joint Venture ■

Charles was spared the expense and problems of building a marketing capability. We got access to the unique talents and capabilities of this exciting group. They gained access to the financial resources they needed to pursue their efforts. We are both reaping the advantages.

On the sales side, we upgraded our sales force, improved the way we trained and motivated them and initiated a sophisticated, electronic call reporting system. This gave us the ability to provide potential partners with accurate, timely feedback on our efforts.

We developed a careful plan for our product acquisition and launch of the effort.

With these changes in place, we were ready to go out into the marketing arena.

"Understand your market."

My marketing experience proved to me that the best plans come from the best intelligence. You have to understand the markets you will be entering, the audience to which you will be selling and, in the case of pharmaceuticals, the practice of medicine as it affects your product and vice versa.

You need all this information in licensing as well, but you also need to know about your potential partners. What drives them? What needs do they have to fill? What constitutes success for their organization?

An example of the importance of understanding your potential partner is the recent agreement that Boehr & Mannheim reached with a domestic start-up company with some very exciting technology.

This company had many start-up companies had to watch its back side very closely. They needed such

flow as they quickly developed non-prescription products that utilized their proprietary technology and didn't require years of FDA review.

They also had a prescription product in the FDA pipeline, but it was a few years off.

With the resources they had, they launched the OTC products in their local market and entered negotiations for licensing the domestic brand.

Success in there was a combination of cash today and control for tomorrow. They didn't want to give up their identity and become a development company. Their goal was to become a BPOCO — that is, a Fully Integrated Pharmaceutical Company. We were able to help them meet their goals by coming up with a package that gave them more options in the long-term versus more cash up front.

The point is clear. If you really know what constitutes a win for your partner, it's easier to get a deal that works for both of you.

"Resources. Use everything you have."

Although we are a small pharmaceutical company, we do have the resources of the Block organization to draw upon. And we've made the most of them.

We've developed a close working relationship with the corporate legal staff — we mean best for an advertising guy. Our communications with the group are very good. We avoid confusion. We are able to work through negotiations with a minimum of miscommunication. Our contract development process is fast and about as painless as possible. We have an ability that many of our larger competitors lack.

The Block International companies can be brought into the picture as well.

Our advertising and public relations agency provides us with strong marketing insights and an unorthodox view of new opportunities. They have even introduced us to some prospective licensors.

Finally, I can't say enough about the value of Corporate contacts. It's amazing how many people and organizations we are able to tap

into just based on the contacts of the people in the Block organization. A simple phone call from one friend to another if not opens doors much more quickly than even the best drafted letters.

I strongly urge you to develop a database of contacts among all the senior levels of your companies. You'll probably be surprised at how extensive it already is.

"Be you too."

Positive attitude always pays off in business. It's easy to get frustrated. It's tempting to relax and lose concentration. But that's not how Ohio State consistently beats "better" teams. You've got to maintain a winning spirit at all times.

In the deal with the start-up company, we were faced with a formidable competitor: a major multinational pharmaceutical company with a specialized dermatology division.

They had the cash to do a deal, and the leverage found that very attractive. We could have dropped out of the bidding when it got too hot. We didn't, and we ultimately won. We were creative and flexible, which sometimes means more than dollars. It can happen. Believe it.

"Aggressiveness pays."

But it isn't enough just to want to win. You've got to go after it with a vengeance. And that's where our Licensing Group comes in. They're like pit bulls, which can be defined as dogs with four legs and one aim. On a proportional basis, Boehr & Mannheim probably invest more in its licensing effort than any other pharmaceutical company.

We have staffed our group with great strength and we support them with staff budgets. The group reports directly to me, and if you attend Workshop 36 on Wednesday afternoon, you can hear Louis Scott explain why we believe this is one of the real keys to success for companies our size.

The group is extremely active, and it constantly communicates with potential partners. We have a plan for visibility that, frankly, includes opportunities like this speech.

When we have an opportunity, I

generally visit many potential licensees and explain Reed & Carnick to them. It's amazingly simple, but when the President of a company shows up to set the stage, licensees get the message about priorities and attention.

This involvement and attention continue throughout the relationship and helps keep things moving smoothly. Our top executives stay in the loop from day one. Decisions are made as needed and the program stays on track.

This is the real benefit of a smaller licensee. The job gets done about as quickly as possible and both licensee and licensee benefit from the relationship.

"Reasonable promises."

My experience in marketing has taught me that a claim that is true but not believable isn't nearly as powerful as a lesser claim that your audience can accept.

Don't over promise. Be sure you can, and will, deliver on your obligations.

Set appropriate expectations — both internally as well as with your partners at all levels of management. Build incentives into licenses, but never have promised in a position where the deal falls because you only reached 95% of some outrageous goal. Better to hit

100% of a more realistic one.

Remember, four yards. Every time. Don't worry about the touch-down play. With great execution, it will come consistently.

"Do what you do best."

It's taken several years, but we now have an organization that offers potential licensees of dermatology and gynecology products a resource that we believe beats our larger competition hands down.

We are licensed in those areas and try to be sure that all opportunities we evaluate play to our strengths.

Of course, we don't want to become myopic and will look at deals that are a bit off target, but we only invest the time to pursue those if we have made a conscious decision to deviate from our game plan.

And what about the last "3" in four yards? That stands for something. (How many would never have done.)

"Surprise them."

Don't just come up with the obvious proposal. Use as much creativity in structuring the deal as you can muster.

In the case I just mentioned, the start-up company came to us with a proposal to pay for our sales force to detail their product. At the same time, the other pharmaceutical

company was offering cash for the pending Rx product. We really wanted a shot at this new compound.

We had to be considerably more creative than our competitor. So we came back with a plan that led to a combination of a license, cooperative launch and a co-promotion deal.

It wasn't what they expected but it met their needs. The other introduced elements that our competition couldn't match. It showed them just what kind of flexible, creative organization they were dealing with and laid the groundwork for a strong relationship.

As a result, we got the product we were looking for. They got early cash flow and national distribution at their list (Rx) product and could share the expense with a partner. They got to keep their identity and to have their name given broader awareness than their own resources would possibly have allowed. And they got to have a say in the representation of the price listed.

Licensing is the Opposite Lane in hand work, but it's lots of fun. Our whole team enjoys the challenges that come from not being one of the large players. It keeps us on our toes. It keeps us thinking all the time.

And it keeps us grinding out those victories four yards at a time.